



Assembly Budget Subcommittee No. 4
on State Administration

INFORMATIONAL HEARING

October 21, 2015



California Film & TV Tax Credit

Progress Report

[Fiscal Year end 2014-15]



Film & TV Tax Credit Program

- Became law in Feb. 2009 as part of a broad economic stimulus package
- Program launched July 1, 2009
- \$100 million dollars of tax credits allocated per fiscal year for 8 years
- Program targeted productions most likely to flee California

Who Qualified for the Program?

Eligible for 20% Tax Credit:

- Feature Films (up to \$75 million maximum production budget)
- Movies of the Week or Miniseries
- New television series licensed for original distribution on basic cable

Who Qualified for the Program?

Eligible for 25% Tax Credit:

- A television series that filmed all of its prior seasons outside of California.
- An "independent film" (\$1 million - \$10 million budget that is produced by a company that is not publicly traded.)

Application Process

- Applications accepted at beginning of fiscal year
- Due to high demand, projects were selected by lottery
- Once all credits (\$100M) were exhausted, remaining applicants were placed on waiting list

Application Process

Applications Received per Program Year

- Yr 1 – 67
- Yr 2 – 119
- Yr 3 – 176
- Yr 4 – 322
- Yr 5 – 389
- Yr 6 – 502
- Yr 7 - 246 (Independent projects ONLY)

Credit Allocation Process

- Application is reviewed for eligibility and required documentation
- Credit Allocation Letter is issued: this is a *reservation* of tax credits based on budget spending estimates.

Program Year 7 Summary* (July 2015 – July 2016)

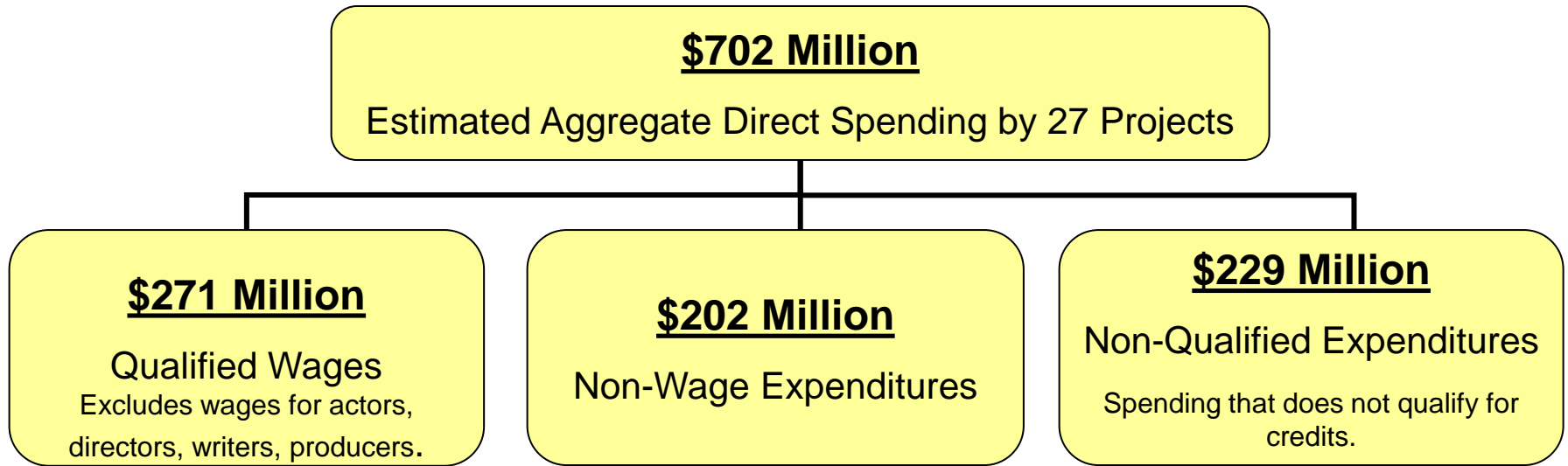
Breakdown by Project Type					
	Feature Films	TV Movies	TV Series	Mini-Series	Total
Number of Projects	11	5	10	0	27
Percentage of Credit Allocation	15%	2%	83%	0%	100%

Independent VS. Non-independent Breakdown		
	Independent	Non-independent
Number of Projects	16	11
Percentage of Credit Allocation	17%	83%



* Program Year 7 figures as of 06/30/15.

Program Year 7 Summary* (July 2014 – July 2015)



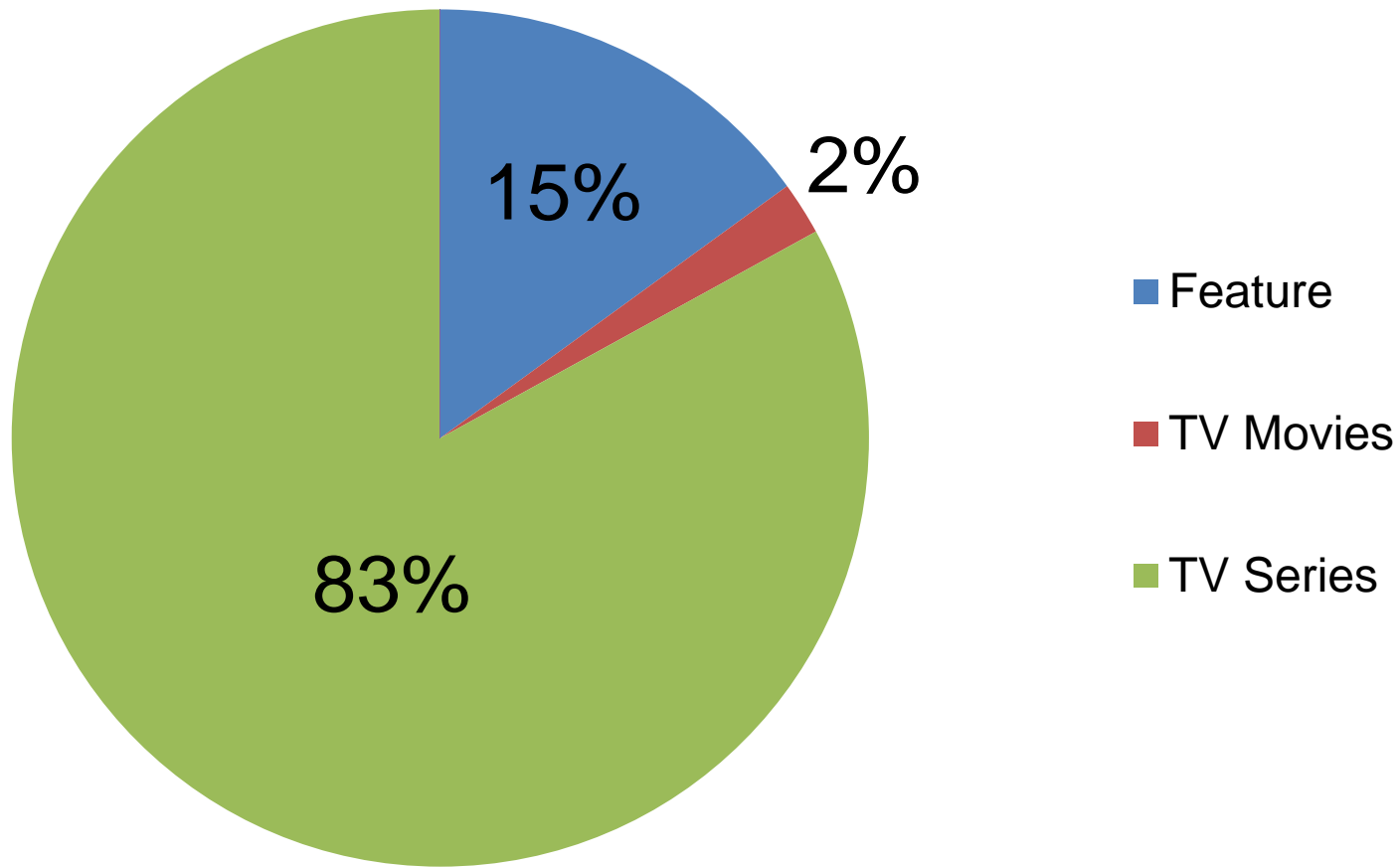
Individuals Hired

3,000 Crew Members

1,800 Cast Members

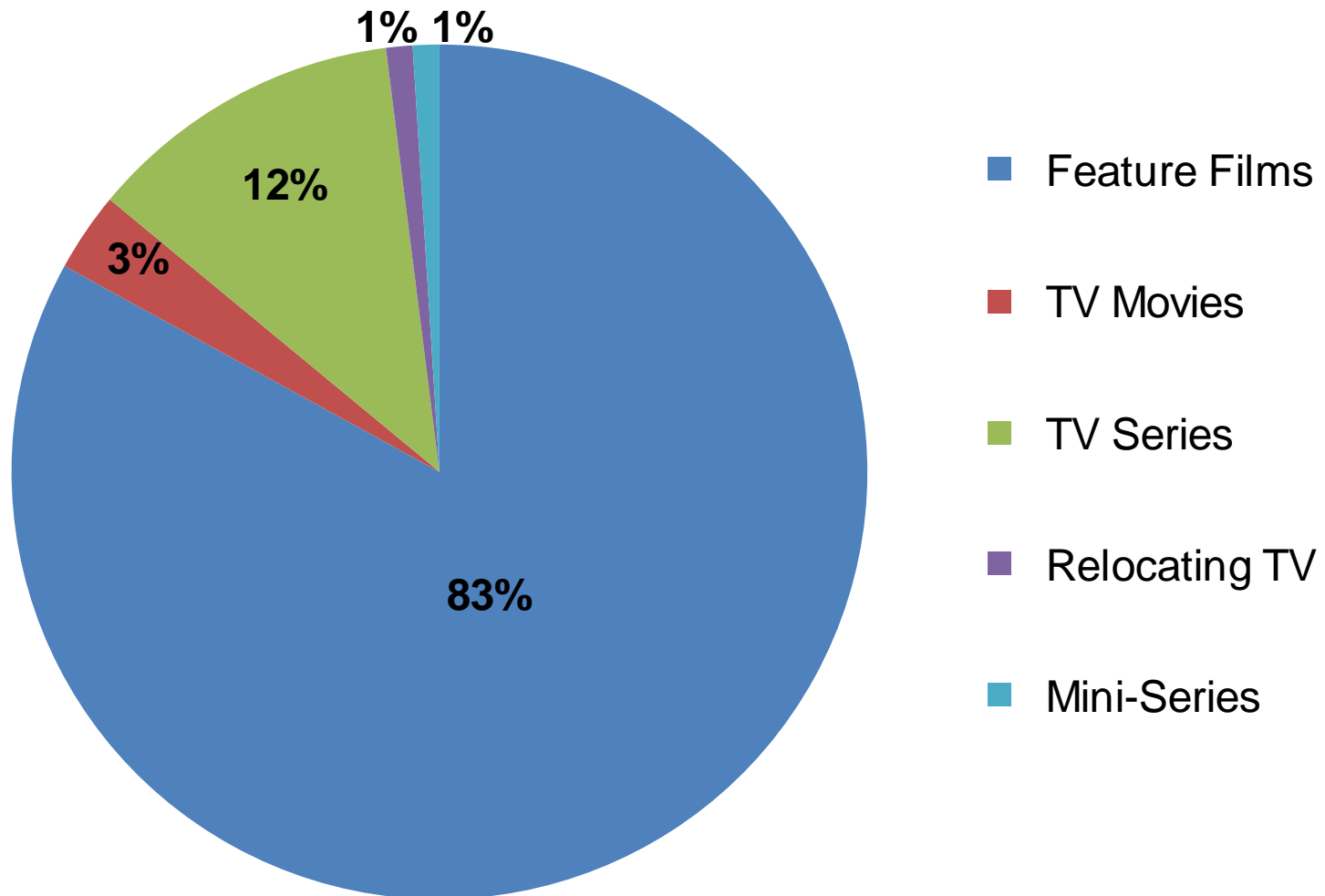
67,000 Background Actors

Breakdown by Credit Allocation Amount Program Year 7

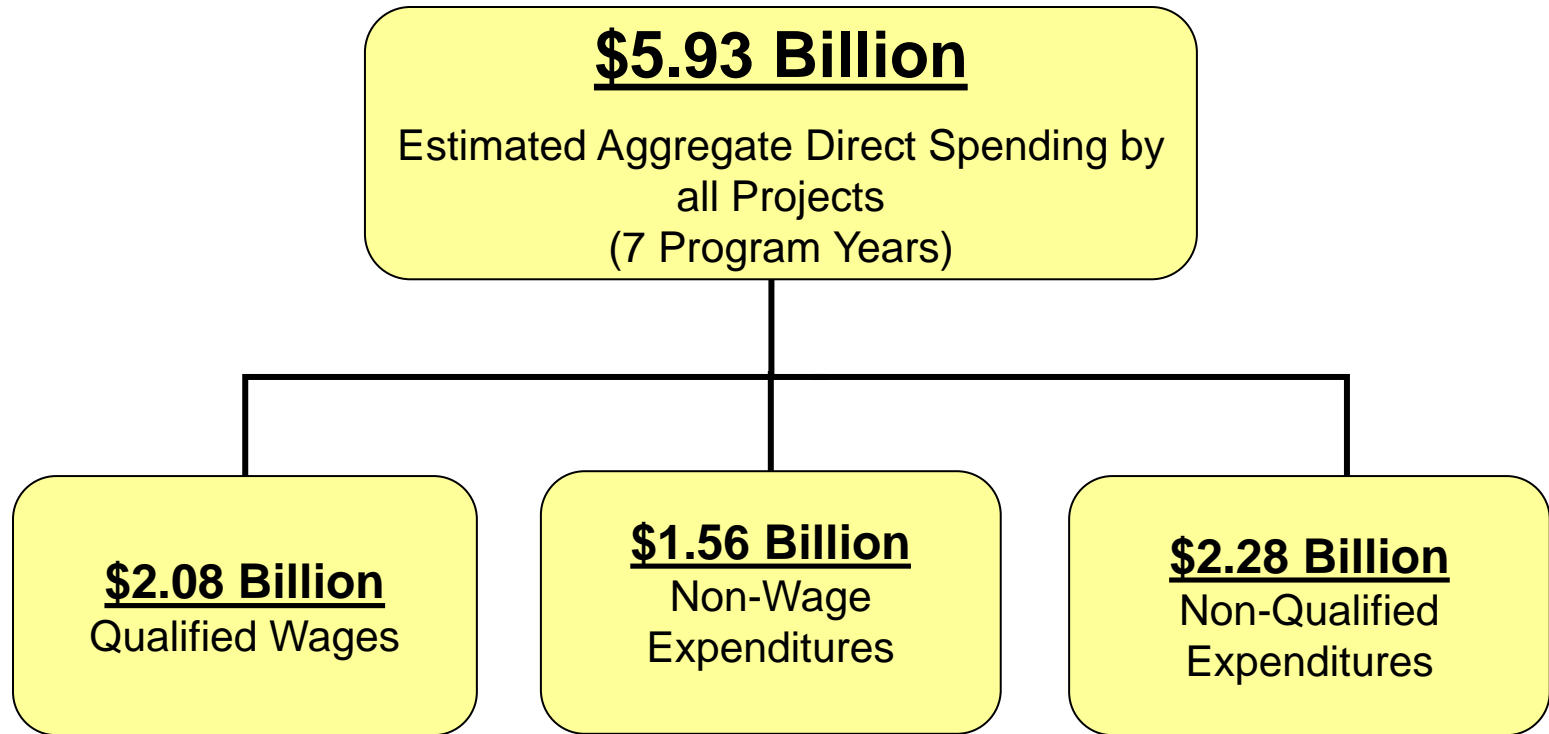


Breakdown by Credit Allocation Amount

Program Year 1



Aggregate Spending



Individuals Hired – Aggregate over 7 Program years

42,000 Crew Members

23,000 Cast Members

546,000 Background Actors

Production Spend Outside L.A. Region

- Alameda County - \$4,446,000
- Imperial - \$817,000
- Kern County - \$276,000
- Orange County - \$130,000
- Placer County - \$79,000
- Riverside County - \$341,000
- San Bernardino County - \$1,000,000
- San Diego County - \$16,000,000
- San Luis Obispo County - \$68,000
- San Mateo County - \$1,500,000
- Santa Barbara County - \$410,000
- Ventura County - \$6,400,000

Audit Process

After a production completes post-production:

- Applicant undergoes an audit process conducted by an independent CPA
- Submit audit and final expenditure information to the CFC for review
- Upon approval of final documentation, CFC issues Tax Credit Certificate

Using the Tax Credits

Tax credits are issued after the project is complete and the independent audit has been approved by the CFC.

- Transferable Tax Credits: Independent Producers may sell their credits to a 3rd party
- Non-Transferable Credits: Studios must use credits against state income tax or sales & use tax liability
- Credits may be used in the year they are issued OR carried forward for 5 years.

Amount of credit is the same *or less than* the initial allocation

Tax Credit Claims

Total tax credit certificates issued:

\$423,998,000

Credits claimed against sales & use taxes:

\$38,275,000

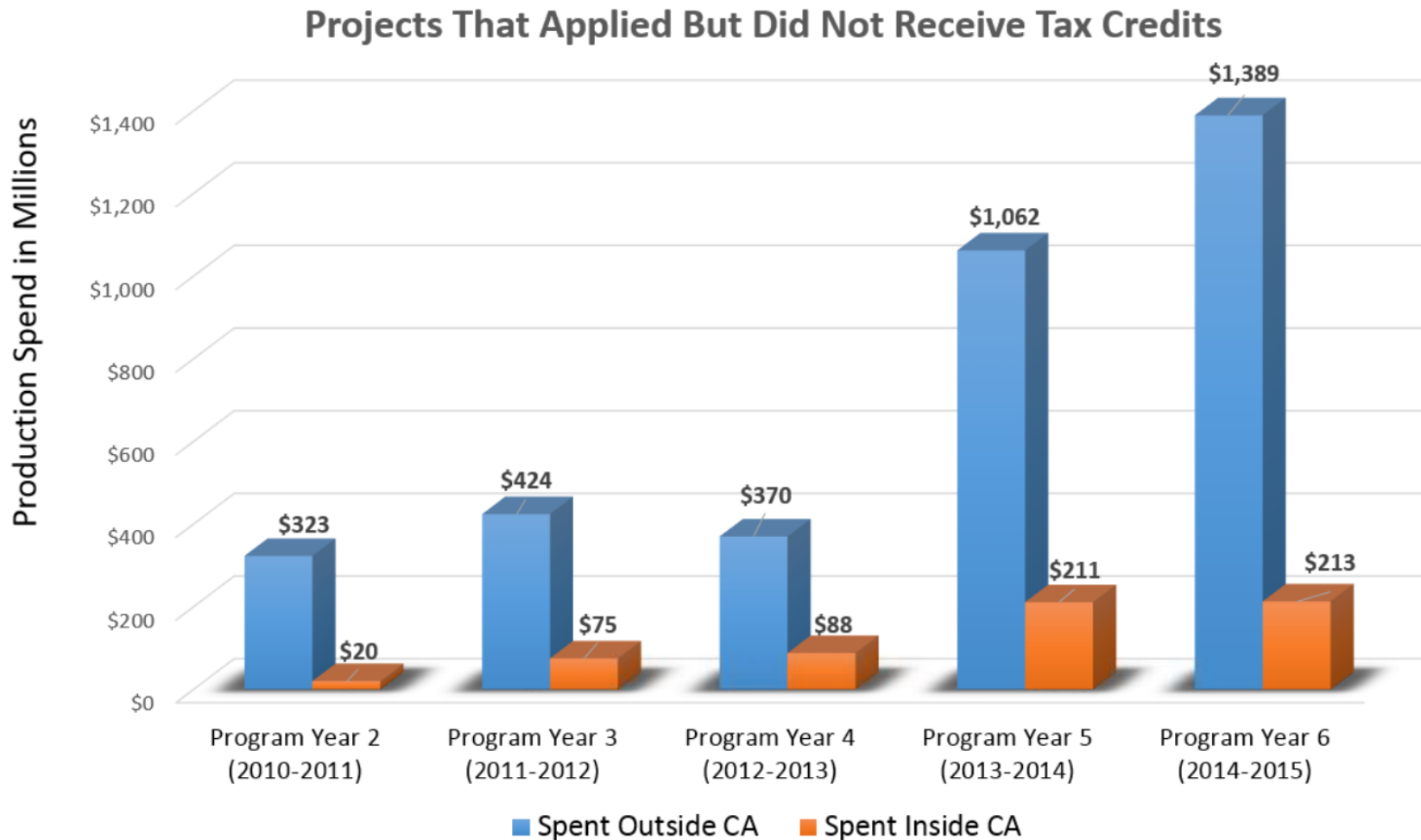
Credits claimed against income tax liability

\$149,208,000

(as of 07-2015)

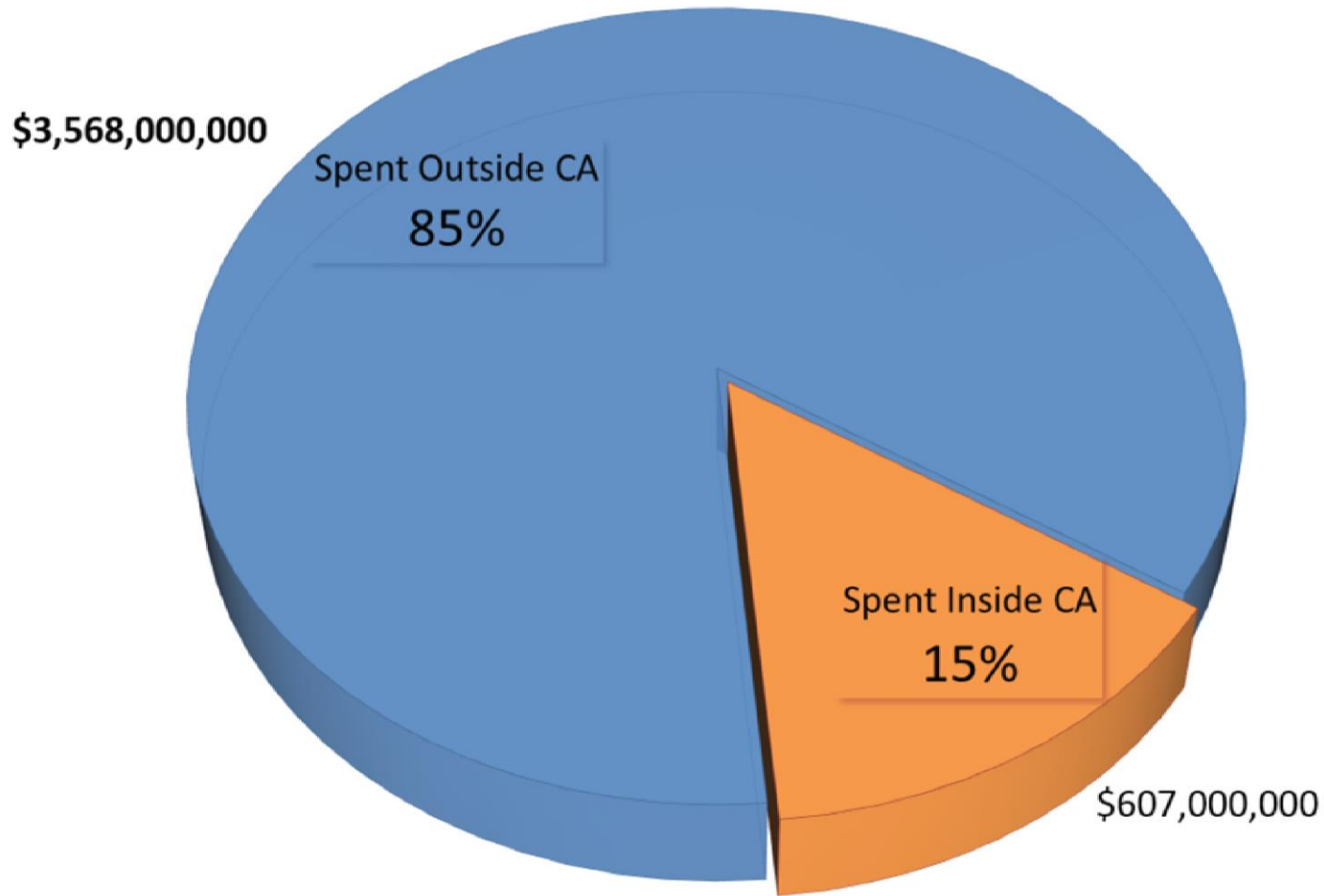


Projects That Applied But Did Not Receive Tax Credit



Waitlist – Total Production Spending

WAITLIST - TOTAL PRODUCTION SPENDING -2010 - 2015



Tax Credit Program Projects: AMERICAN SNIPER



Tax Credit Program Projects: **THE GAMBLER**



Tax Credit Program Projects: KNIGHT OF CUPS



Tax Credit Program Projects: RIZZOLI AND ISLES



Tax Credit Program Projects: ARGO



California Film & TV Tax Credit Program **2.0**

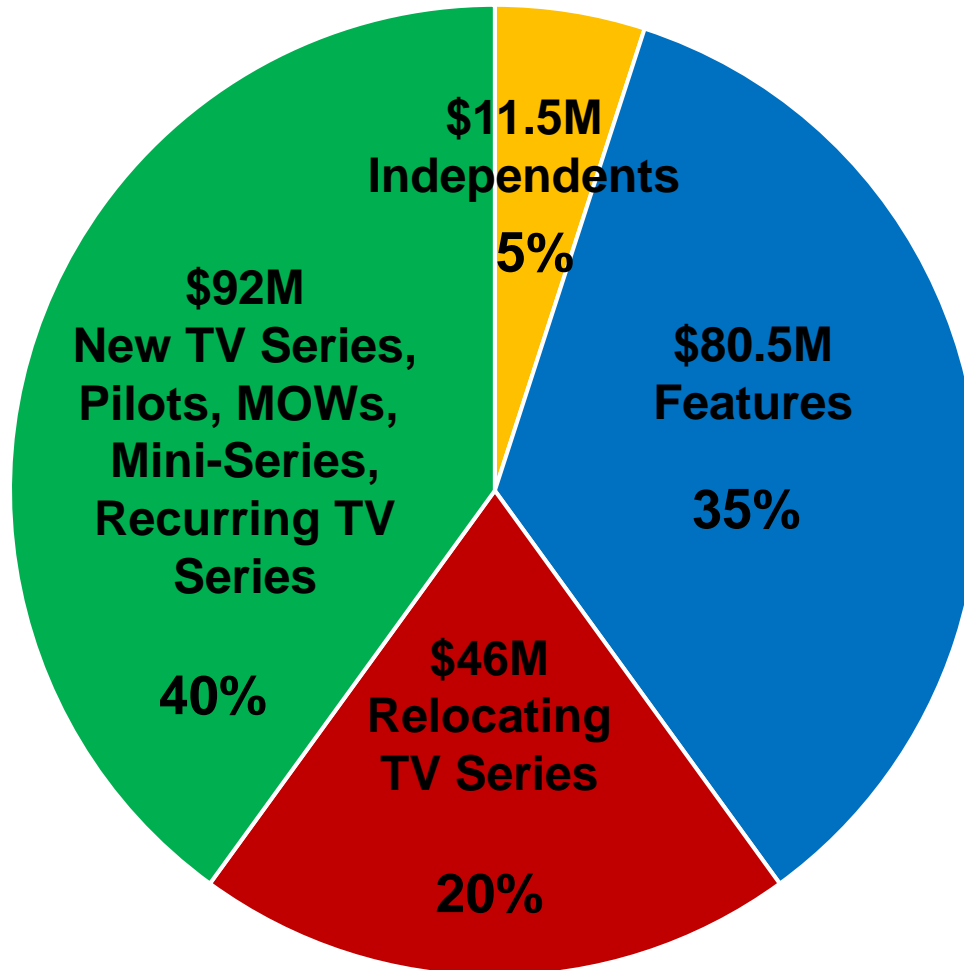


Key Changes From Prior Program

- Increases funding from \$100M to \$330M per year
- Expands eligibility for big-budget films, 1-hr TV series for any distribution outlet and TV pilots
- Eliminates budget caps for feature films; Credits apply to first \$100M in qualified spend
- Eliminates penalty provision for Independents; Credits apply to first \$10M in qualified spend
- Replaces lottery selection with jobs-ratio ranking
- Multiple allocation periods throughout the year
- Adds 5% “Uplifts” for filming outside the 30-mile zone, VFX spending and music scoring/recording in-state

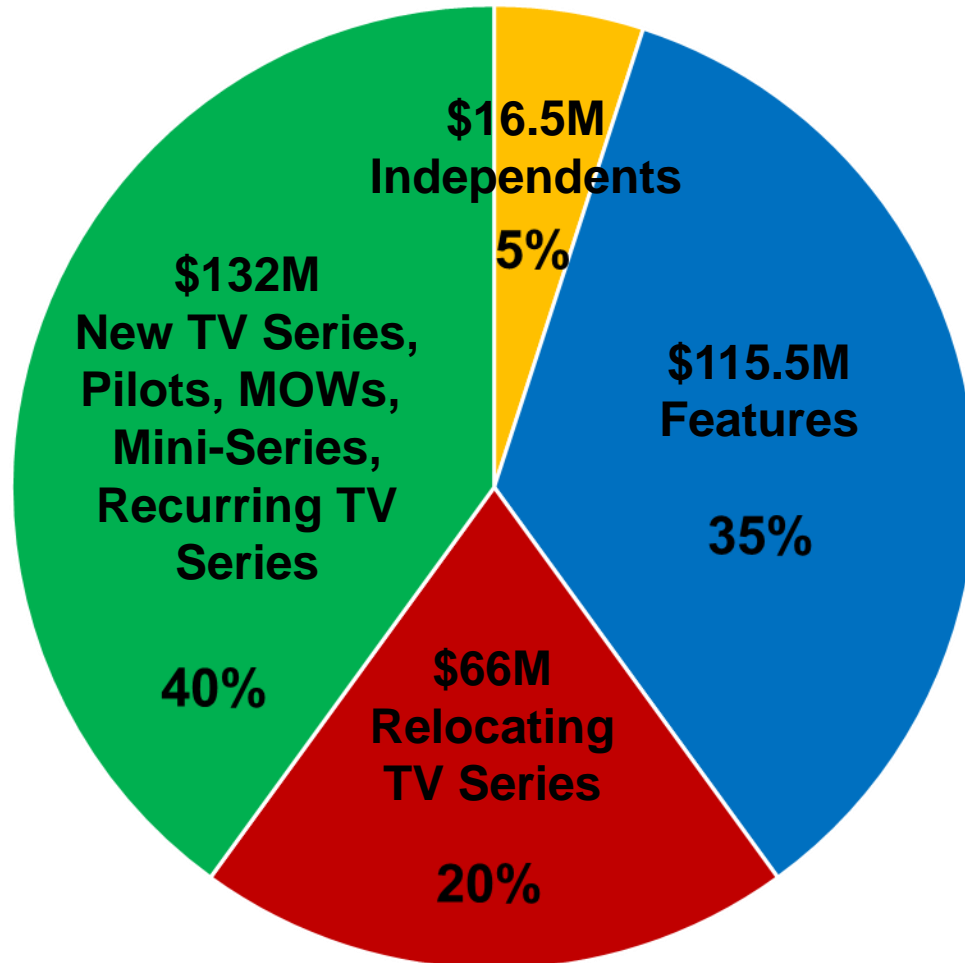
Fiscal Year Funding Categories

Program Year 1 - \$230 Million

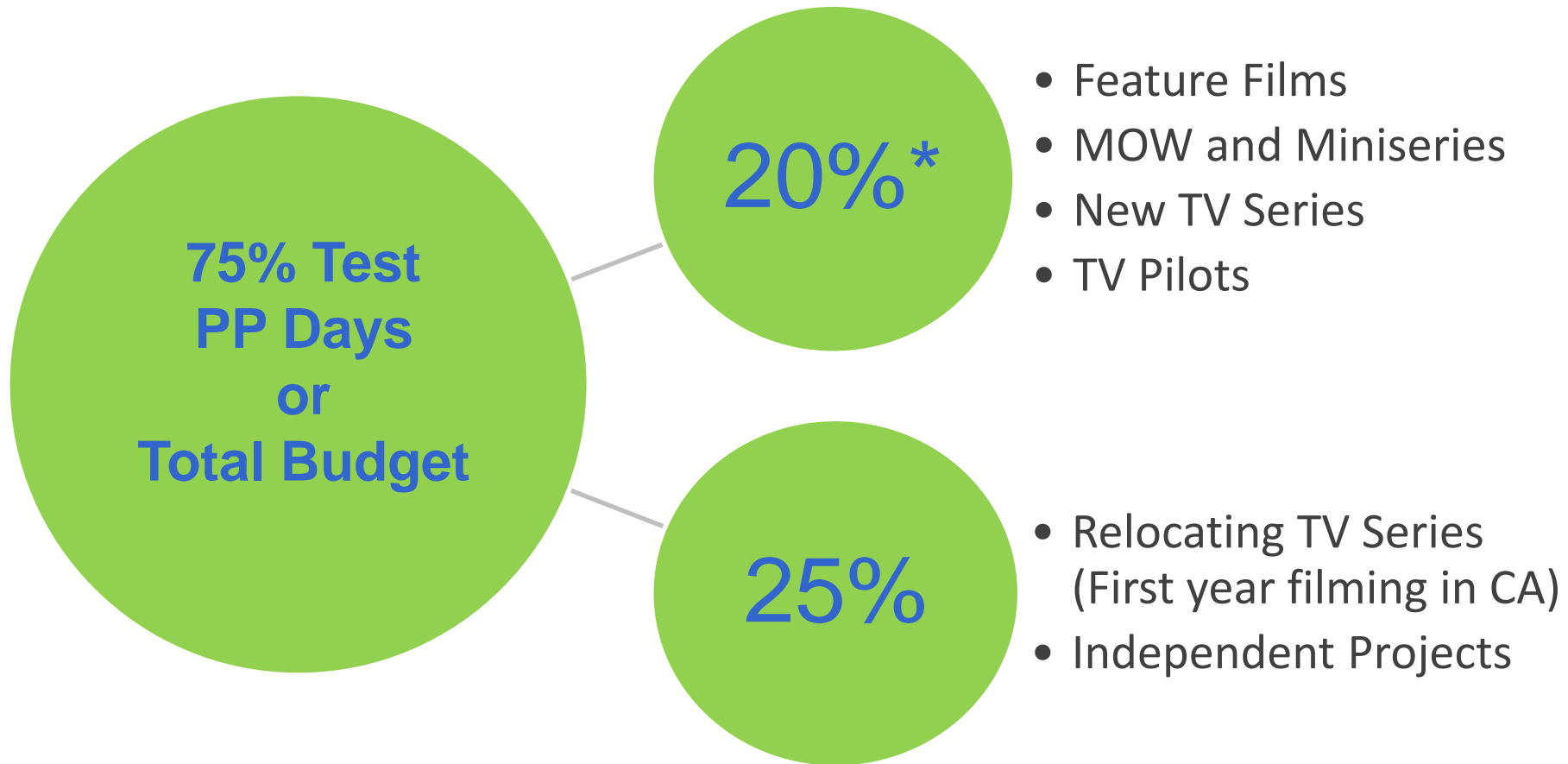


Fiscal Year Funding Categories

Program Years 2-5 \$330 Million



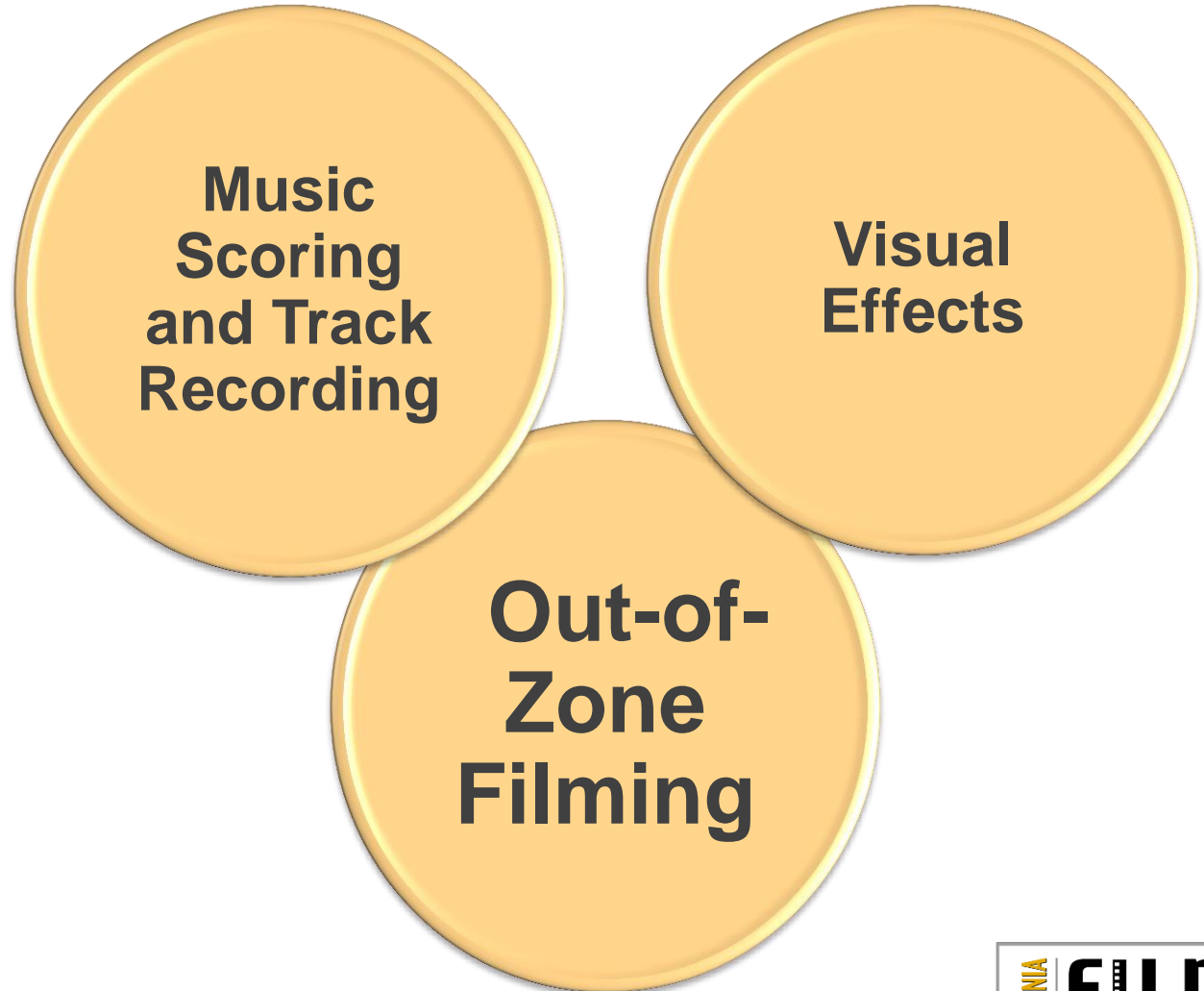
Eligibility and Tax Credit Allocation Percentages



* May be eligible for 5% Uplifts

5% Tax Credit UPLIFT

- Uplifts cannot be combined.
- The maximum credit a production can earn is 25%.
- (Does not apply to: independent productions relocation series – 1st season in California



Jobs Ratio Ranking

Category-Specific Competition

Each production category has a dedicated fund of tax credits.

Projects will be ranked directly against comparable (or "like") projects.

- Indies will be ranked against indies;
- TV ranked against TV, etc.

Application Ranking Process

- Applicants enter project data into on-line application
- The on-line system will calculate the Jobs Ratio and assign ranking #
- Top 200% of projects will be notified to send backup materials (Script, 1-liner, budget, financing docs, etc.)
This is Phase 2 of the application process.
- Top 100% will receive Credit Allocation Letter
- Remaining projects move to wait list within their category

Jobs Ratio Calculation

Jobs Ratio Calculation:

$$\frac{\text{Qualified Wage} + 35\% \text{ of Qualified Non-Wage}}{\text{Estimated Tax Credit}} = \text{Base Jobs Ratio}$$

Bonus Points (up to 25% points) can increase the Base Jobs Ratio:

$$\text{Base Jobs Ratio} \times (\text{Points } \%) = \text{Adjusted Jobs Ratio}$$

Adjusted Jobs Ratio Calculation

- Bonus Points (up to 25% points) can increase the Base Jobs Ratio:
 - VFX Spending Factor
 - Out-of-Zone Principal Photography Days Factor
 - Prod. Facility Principal Photography Days Factor

Non-Independent TV Breakdown Allocation # 1 – May 2015

Approved Projects by Type:

6 New TV Series

2 Mini-series

4 Pilots

3 Relocating TV Series

Total: 15

Non-Independent TV Projects - Spending Summary Allocation # 1 – May 2015

\$473 Million

Estimated Aggregate Direct Spending by 15 Projects

\$177 Million

Qualified Wages

Excludes wages for actors,
directors, writers, producers.

Estimated Cast & Crew

2,600 Crew Members

2,300 Cast Members

Allocation # 2 Summary July 2015

Approved Projects by Type:

8 Feature films

3 Independent projects

Total: 11

Feature Film & Independent Projects - Spending Summary Allocation # 2 – July 2015

\$533 Million

Estimated Aggregate Direct Spending by 11 Projects

\$164 Million

Qualified Wages

Excludes wages for actors,
directors, writers, producers.

Estimated Cast & Crew

2,000 Crew Members

655 Cast Members

Audit Process

- All productions will undergo an audit process conducted by an independent CPA
- Projects will be ranked according to the Jobs Ratio again to determine any overstatement.
- Penalties may apply
- *Reasonable Cause* provision allows for force majeure events which may have adversely affected the Jobs Ratio
- Once all final documentation and audit is approved, CFC issues Tax Credit Certificate

Career Readiness Requirement

All approved applicants must participate in educational training opportunities to expose high school and community college students to jobs in the industry

- Applicants will choose from a list of options for participation:
 - Paid internship
 - Conduct a classroom workshop or demonstration
 - Direct financial contribution to a specific school or educational fund
 - Externship – continuing Ed. for faculty

Regulations

April 2015 – Emergency regulations adopted

Oct 2015 – Re-adoption of emergency regulations

Jan. 2015 - Re-adoption of emergency regulations

April 2016 – Adoption of permanent regulations

The California Advantage

- Plentiful Production Facilities
- Skilled crews (we can accommodate over 100 simultaneous productions of all sizes)
- The best on-screen talent
- Worldclass VFX and Post facilities
- Diverse locations and 800 miles of coastline
- Support service vendors for every need
- Expanded tax credits



www.film.ca.gov